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SUBJECT: EXPORT DEPENDENCE DRAGS DOWN SINGAPORE ECONOMY

REF: SINGAPORE 1110

¶1. Summary: Singapore's export performance recorded a 15- percent drop in October, the sixth consecutive monthly decline. Singapore's reliance on exports for a substantial part of its economy helped drag the country into a technical recession during the third quarter, a situation unlikely to improve in the near term. Slowing global demand has broadly hit exports, in particular key electronics and pharmaceutical exports, although volatility in the pharmaceutical sector may be overstating the overall impact on the economy. Services exports, including tourism, offer no respite. Analysts predict that projected slow demand in the EU, United States and increasingly Asia will continue to crimp exports and delay any recovery in economic growth until late 2009. End Summary.

¶2. The GOS announced November 17 that Singapore's non-oil domestic exports (NODX) fell 15 percent in October, the sixth straight month of contraction and the largest contraction since March 2002. This has been the longest export slump in six years. Worse numbers are likely to come. A report by HSBC Holdings said the bank expects that the effects of the recent credit crunch will only be fully reflected in November and December data. Key leading indicators suggest that exports will continue to drag well into the first half of 2009. The Singapore dollar has weakened steadily since July and offers some relief to exporters, but Singapore's manufacturing exports tend to have high import content, raising the cost of inputs. Citigroup analysts expect the global slowdown will keep the Singapore economy in recession for the next six to twelve months.

¶3. Singapore's heavy reliance on exports for economic growth helped make it the first Asian country to find itself in a technical recession last month, suffering two consecutive quarters of negative growth in the second and third quarters of 2008 (reftel). Singapore has a small domestic market and has traditionally depended on its strategic position at the junction of major trading routes to act as a distribution hub for the region. Singapore's overall trade is approximately 3.5 times GDP, one of the highest rates in the world. The GOS has made a conscious effort over the years to diversify the Singaporean economy to avoid having a slump in any one industry dragging the entire economy down. However, the broad and deep contraction in key export markets has hit a wide array of export sectors.

Exports Tough All Over

¶4. Singapore's non-oil exports to its key trading partners took a major drop in October and led the overall decline. Exports to the United States dropped 31 percent year-on-year, the tenth consecutive month of contraction. Exports to the United States began slowing in mid-2007 as the sub-prime crisis began to pinch U.S. incomes, and exports have been off approximately 15 percent since the beginning of the year. Exports to other regions held up earlier in the year, but as the effects of the financial crisis have spread around the globe, Singapore's exports to other regions have begun to see serious declines in the past few months. Exports to the EU fell 14 percent in October, following a 24-percent contraction in September.

Together the EU and United States markets are the destination for almost one-third of Singapore's total exports.

¶5. Exports to Asian markets had been brighter this year, but have also begun to fall off, reflecting a slowdown in domestic Asian demand as well as a drop in exports of intermediate goods that are assembled for final export to developed markets. Exports to China were down nine percent. Exports to Indonesia were up 6.1 percent, the only increase in Singapore's top 10 export markets. Exports to other emerging markets had stayed in positive territory in past months, but the slide in global commodity prices has hurt the ability of many developing countries to continue importing at the same levels. As a result, overall exports to emerging markets are down 18 percent.

Electronics and Pharma Lead the Decline

¶6. Exports of electronics manufactures, which make up about 30 percent of Singapore's total manufacturing base, have led the downturn. Electronics exports contracted for the 21st consecutive month in September, falling by 15 percent year-on-year. Electronic consumer products were off 53 percent. The decline was fueled in part by closure of a Motorola cell phone plant in April, and other restructuring in the electronics industry.

¶7. Pharmaceutical exports contracted 39 percent in October, following a 28-percent decline in September. Pharmaceutical production is a relatively new industry for Singapore and has become a key sector, making up 22 percent of overall manufacturing. However, the production and export figures for this industry are highly volatile by nature and may have prematurely pushed Singapore

into a technical recession. Nearly all pharmaceutical plants in Singapore engage in production of active pharmaceutical ingredients, which requires production at full capacity for a period of time, followed by an idle period for cleaning and sterilization to prepare for the next order. The volatility in the production pattern is reflected in wide swings in production and export statistics which can skew overall economic figures. The industry's actual impact on the economy is relatively light as the pharmaceutical industry is not closely integrated with other sectors and employment is relatively low. Nevertheless, pharmaceutical exports have shown an overall downward trend for the year and have declined at unexpectedly high rates.

¶8. Although Singapore has consciously diversified its exports beyond manufacturing into services, many services are externally oriented and are also suffering. As regional trade has slowed, so have Singapore's wholesale trade, transport and logistics services. A combination of higher air travel costs and the financial crisis have served to put the tourist industry in its fourth straight month of decline. Hotel occupancy and room rates are expected to be flat in coming months despite the upcoming holiday season. The GOS estimated the industry will not fully recover for another two years. Financial services that Singapore provides the region have held up relatively well, but with funding conditions tightening, this sector is also taking a turn for the worse with numerous financial institutions laying off staff and cutting costs.
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